

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name : Southeastern Oakland County Resource Recovery Authority	County Oakland
Audit Date June 30, 2005	Opinion Date September 22, 2005	Date Accountant Report Submitted to State: December 22, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 200	City Troy	State MI	Zip 48098
<div style="text-align: center;"> Accountant Signature Thomas E. Darling, CPA</div>			



**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2005**

SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2005

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 22, 2005

Members of the Board
Southeastern Oakland County
Resource Recovery Authority
Oakland County, Michigan

We have audited the accompanying basic financial statements of the ***Southeastern Oakland County Resource Recovery Authority***, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the ***Southeastern Oakland County Resource Recovery Authority's*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Southeastern Oakland County Resource Recovery Authority***, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005, on our consideration of the ***Southeastern Oakland County Resource Recovery Authority's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 8 and the Schedule of Funding Progress on Page 22 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on ***Southeastern Oakland County Resource Recovery Authority's*** basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY ROYAL OAK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The Authority's net assets decreased in the amount of \$(674,534). This was primarily due to a member refund in the amount of \$556,000.
- The liability for landfill closure and post-closure costs decreased by approximately \$191,187.
- The Authority's working capital at year end was \$273,878 which represents approximately 3.37% of the Authority's annual expenditures.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The *financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *total net assets*. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., post-closure landfill costs).

The Authority is a single purpose business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority includes providing a full range of solid waste services to its member communities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Please refer to the Notes to Financial

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statements Section of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to defined benefit pension plan information and to this management discussion and analysis.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. At the close of the most recent fiscal year, assets exceeded liabilities by \$ 6,291,665 .

By far the largest portion, \$ 7,028,635 , of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure.) The Authority uses these capital assets to provide services to its member communities; consequently, these assets are *not* available for future spending. This results in a deficit unrestricted net assets of \$ (736,970).

Authority Net Assets

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 1,522,003	\$ 1,542,995
Restricted assets	394,976	1,487,369
Capital assets, net	<u>7,028,635</u>	<u>6,970,170</u>
Total assets	<u>8,945,614</u>	<u>10,000,534</u>
Current liabilities	1,248,125	1,436,973
Noncurrent liabilities	<u>1,405,824</u>	<u>1,597,362</u>
Total liabilities	<u>2,653,949</u>	<u>3,034,335</u>
Net assets:		
Invested in capital assets	7,028,635	6,970,170
Restricted	-	444,790
Unrestricted (deficit)	<u>(736,970)</u>	<u>(448,761)</u>
Total net assets	<u><u>\$ 6,291,665</u></u>	<u><u>\$ 6,966,199</u></u>

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority net assets decreased in the amount of \$(674,534). The key elements of this decrease are as follows:

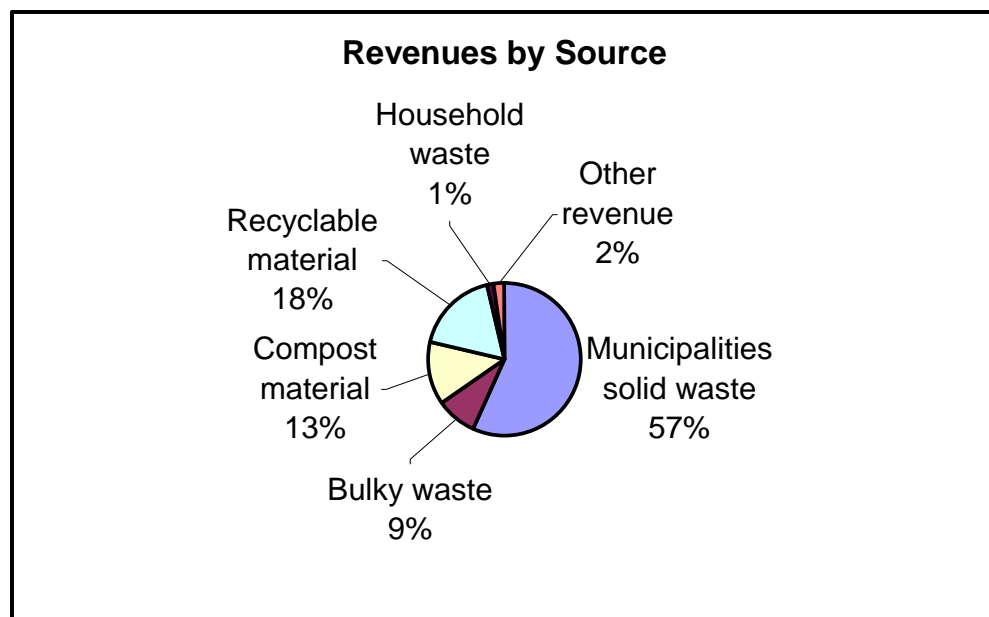
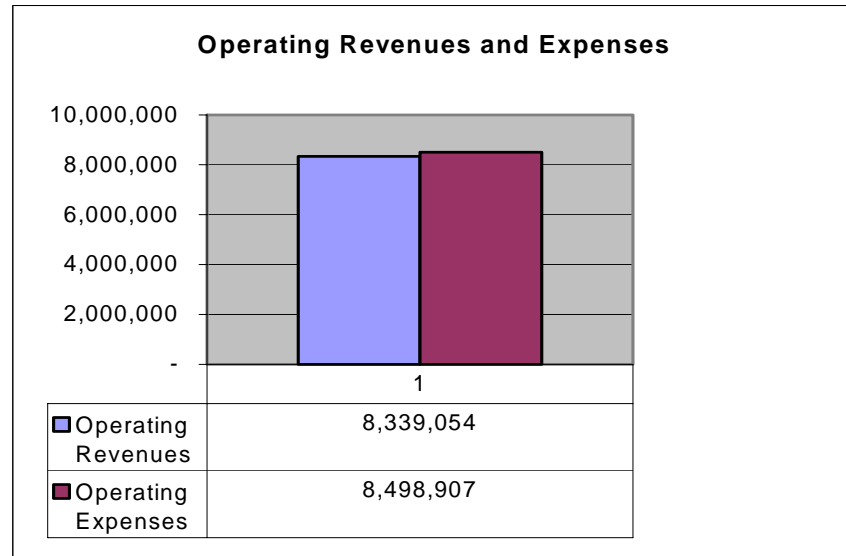
- Member municipalities were refunded a total of \$556,073
- Depreciation on capital assets in the amount of \$380,256

Authority Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Revenue:		
Charges for services	\$ 8,144,748	\$ 7,853,457
Interest	40,221	29,251
Other	195,626	99,891
Total revenue	<u>8,380,595</u>	<u>7,982,599</u>
Expenses:		
Operating expenses	6,726,355	6,911,579
Administrative and general	1,392,296	1,076,889
Depreciation	380,256	99,920
Refund to members	556,073	1,000,000
Loss on sale of capital assets	149	13,350
Total expenses	<u>9,055,129</u>	<u>9,101,738</u>
Change in net assets	(674,534)	(1,119,139)
Net assets, beginning of year	<u>6,966,199</u>	<u>8,085,338</u>
Net assets, end of year	<u><u>\$ 6,291,665</u></u>	<u><u>6,966,199</u></u>

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS



**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its activities as of June 30, 2005, amounted to \$7,028,635 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, rental properties, buildings, equipment and organizational costs. The total increase in the Authority's investment in capital assets for the current fiscal year was \$58,465 (net) or 0.84% percent.

Major capital asset events during the current fiscal year included the following:

- Partial installation of the dual stream sorting system at the Material Recovery Facility. Additional expenses will be incurred in 2005/06.
- Purchase of two fork lifts for the Material Recovery Facility.
- New pavement at the Troy Transfer Station.
- Miscellaneous equipment at the Material Recovery Facility.
- Replacement of one truck.

**Authority Capital Assets
(net of depreciation)**

Land	\$ 1,411,800
Construction in progress	538,369
Land improvements	2,702,765
Rental properties	1,380,032
Buildings	6,307,189
Equipment	3,256,315
Organizational costs	28,636
Less: accumulated depreciation	<u>(8,596,471)</u>
Total capital assets, net	<u><u>\$ 7,028,635</u></u>

Additional information on the Authority capital assets can be found in Note II-C of this report.

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt. At the end of the current fiscal year, the Authority had no debt outstanding.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2005-06 fiscal year:

- Increased union employee wage cost of 2.5%.
- Increased health insurance cost of 10%.
- Increased property and liability and worker's compensation insurance costs of 5%.
- Tonnage contributed by member communities remained unchanged. Tonnage contributed by non-members increased by 22% to 11,600 tons.
- Member disposal rates were increased by \$1.00 per ton, non-member disposal rates were also increased by \$1.00 per ton. The credit paid to the member communities for their recyclable material was increased to \$30 per ton from \$25 per ton.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

***BASIC FINANCIAL
STATEMENTS***

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

ASSETS

Current assets:

Cash and cash equivalents	\$ 804,714
Accounts receivable, net	540,601
Other current assets	176,688
Total current assets	<u>1,522,003</u>

Noncurrent assets:

Restricted assets	394,976
Capital assets:	
Not being depreciated	1,950,170
Being depreciated	5,078,465
Total capital assets	<u>7,028,635</u>
Total noncurrent assets	<u>7,423,611</u>
Total assets	<u>8,945,614</u>

LIABILITIES

Current liabilities:

Vouchers payable	1,010,946
Other payable - related party	56,143
Deferred revenue	-
Other current liabilities	181,036
Total current liabilities	<u>1,248,125</u>

Current liabilities payable from restricted assets

-

Noncurrent liabilities:

Accrued compensated absences	66,764
Deposits	10,375
Liability for landfill closure and post-closure care costs	1,328,685
Total noncurrent liabilities	<u>1,405,824</u>
Total liabilities	<u>2,653,949</u>

NET ASSETS

Invested in capital assets	7,028,635
Restricted	-
Unrestricted (deficit)	(736,970)
Total net assets	<u>\$ 6,291,665</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

OPERATING REVENUES

Municipalities solid waste	\$ 4,720,162
Bulky waste	717,683
Compost material	1,113,129
Recyclable material	1,480,202
Household waste	113,572
Other revenue	
Rental	82,322
Insurance proceeds	51,124
Miscellaneous	60,860

Total operating revenues:	8,339,054
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OPERATING EXPENSES

Madison Heights transfer station	425,031
Reloading operation - compos	430,742
Refuse hauling operation	1,653,124
Battery recycling/special household waste	141,542
Troy transfer station operation	2,597,446
Material recovery facility	688,483
Rochester Hills landfill operation	789,987
Administrative and genera	1,392,296

Total operating expenses:	8,118,651
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Operating income before depreciation	220,403
Depreciation	380,256

Operating loss	(159,853)
-----------------------	------------------

NONOPERATING REVENUES (EXPENSE)

Madison Heights settlemen	(556,073)
Grants	1,320
Interest income	40,221
Loss on sale of capital assets	(149)

Total nonoperating revenue (expense)	(514,681)
---	------------------

Change in net assets:	(674,534)
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Net assets, beginning of year	6,966,199
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Net assets, end of year	\$ 6,291,665
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The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

Cash flows from operating activities:

Receipts from customers	\$ 8,324,268
Payments to related party	(668,072)
Payments to suppliers	(6,322,668)
Payments to employees	(1,334,454)

Net cash (used) by operating activities	(926)
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Cash flows from capital and related financing activities:

Grants	1,320
Purchases of capital assets	(438,870)

Net cash (used) in capital and related financing activities	(437,550)
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Cash flows from investing activities:

Land sale rebate	(556,073)
Interest received on investments	40,221

Net cash (used) in investing activities	(515,852)
--	------------------

Net decrease in cash and cash equivalents	(954,328)
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Cash and cash equivalents, beginning of year	2,154,018
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Cash and cash equivalents, end of year	\$ 1,199,690
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Statement of net assets classification of cash and cash equivalents

Cash and cash equivalents	\$ 804,714
Restricted assets	394,976

Total	\$ 1,199,690
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Reconciliation of operating loss to net cash (used)

by operating activities:

Operating loss	\$ (159,853)
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Adjustments to reconcile net operating loss to net cash provided by operating activities

Depreciation	380,256
Increase in accounts receivable	(13,466)
Decrease in other assets and receivables	172,523
Decrease in vouchers payable and other liabilities	(179,448)
Decrease in deferred revenues	(1,320)
Decrease in liabilities payable from restricted assets	(8,080)
Increase in accrued compensated absences	2,719
Decrease in deposits	(3,070)
Decrease in accrued landfill liability	(191,187)

Total adjustments	158,927
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Net cash (used) by operating activities	\$ (926)
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The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Southeastern Oakland County Resource Recovery Authority (“the Authority” or “SOCRRA”), was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1947 (as amended by Act Number 92 of the Michigan Public Acts of 1955 and by Act Number 598 of the Michigan Public Acts of 2002) under the original title of the Southeastern Oakland County Incinerator Authority. The Authority provides waste disposal and recycling services to municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, one member representing each constituent municipality. Principal funding for the Authority is derived from waste disposal charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

B. Basis of Presentation - Government-Wide Statements

Government-wide financial statements. The statements of net assets and statement of revenues, expenses and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority’s enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The Authority reports the following major proprietary fund:

Resource Recovery. This fund accounts for the activities of the Authority's recycling and waste disposal programs.

The financial statements of the Authority follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Liabilities and Equity

Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

Receivables

All trade receivables are shown net of an allowance for uncollectibles if an allowance is applicable. All receivables were considered 100% collectable at year end and as such no allowance has been established

Other assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

Restricted assets

Certain resources of the Authority are set aside for costs of landfill closure and post-closure costs and court order mandates and are classified as restricted assets on the statement of net assets because their use is limited to those types of expenses.

Capital assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

The depreciation on these assets are charged as an expense against the operations on a straight-line basis over the estimated useful lives of the assets, which will range from five (5) to fifty (50) years depending on the nature of the assets.

<u>Asset Type</u>	<u>Depreciable Life</u>
Land improvements	5 – 50
Rental properties	5 – 30
Buildings	10 – 50
Equipment	5 – 25
Organizational costs	30

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

Compensated absences

The Authority allows employees to accumulate unused vested sick leave. Once an employee has accumulated at least four hundred eighty hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned in excess of forty eight hours (6 days) during the immediately preceding fiscal year. At no time may an employee accumulate over nine hundred sixty hours (120 days).

II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2005:

Statement of Net Assets	
Cash and cash equivalents	\$ 804,714
Restricted cash and cash Equivalents	<u>394,976</u>
Total	<u><u>\$ 1,199,690</u></u>

Deposits and Investments	
Bank deposits (checking accounts, savings accounts and CDs)	\$ 160,672
Pooled Investments	756,661
MMRMA Fund	281,905
Cash on hand	<u>452</u>
Total	<u><u>\$ 1,199,690</u></u>

The Authority chooses to disclose its investments by specifically identifying each. As of year-end, the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Comerica Pooled Investments	n/a	\$ 756,661	Unrated
MMRMA Pooled Investments	n/a	<u>281,908</u>	Unrated
Total		<u><u>\$ 1,038,569</u></u>	

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in note 1 of the summary of significant accounting policies. The Authority investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in Note I-D. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment, if available, are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$61,547 of the total \$261,547 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. The Authority's total investments of \$1,038,569 are in short-term investment pools that are registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

B. Receivables and other Assets

Receivables are 100 percent due from member communities and considered fully collectable. As such no allowance for doubtful accounts has been established.

Other assets is comprised of prepaid items in the amount of \$176,688.

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

C. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated -				
Land	\$ 1,411,800	\$ -	\$ -	\$ 1,411,800
Construction In Progress	185,420	352,950		538,370
Total Assets not Depreciated	<u>1,597,220</u>	<u>352,950</u>		<u>1,950,170</u>
Capital assets, being depreciated:				
Land improvements	2,671,788	30,977	-	2,702,765
Rental properties	1,380,032	-	-	1,380,032
Buildings	6,307,189		-	6,307,189
Equipment	3,215,683	54,944	(14,312)	3,256,315
Organizational costs	28,636	-	-	28,636
Total capital assets being depreciated	<u>13,603,328</u>	<u>85,920</u>	<u>(14,312)</u>	<u>13,674,936</u>
Less accumulated depreciation	<u>(8,230,377)</u>	<u>(380,257)</u>	<u>14,163</u>	<u>(8,596,471)</u>
Total capital assets being depreciated, net	<u>5,372,951</u>	<u>(294,337)</u>	<u>(149)</u>	<u>5,078,465</u>
Business-type activities capital assets, net	<u>\$ 6,970,171</u>	<u>\$ 58,613</u>	<u>\$ (149)</u>	<u>\$ 7,028,635</u>

D. Restrictions of Net Assets

Restricted net assets on the Statement of Net Assets are legally restricted for a specific purpose as imposed by sources outside of the Authority.

The schedule of restricted net assets is as follows:

	<u>Restricted Net Assets</u>
Landfill closure	\$ 12,522
Landfill post-closure	281,908
Landfill end use	100,546
Total restricted assets (cash)	<u>394,976</u>
Less:	
Long-term liabilities payable from restricted assets	<u>(394,976)</u>
Total restricted net assets	<u>\$ -</u>

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the Michigan Municipal Risk Management Authority and the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims have not exceeded coverage in any of the past three years.

B. Related Party Transactions

The Authority has developed a cost sharing strategy for certain administrative salaries, operating expenses and capital asset expenses with the Southeastern Oakland County Water Authority (SOCWA). In addition to these shared costs, the Authority also is charged and pays an annual office rental fee to SOCWA in the amount of \$45,000. These cost sharing arrangements resulted in the Authority paying SOCWA \$604,976 for the year ended June 30, 2005. As of June 30, 2005, the amount of payables due to SOCWA was \$56,143.

C. Contingent Liabilities

Madison Heights Property (Old Royal Oak Township Dump Site)

The Authority has been identified as a potentially liable party, along with three other entities, by the Michigan Department of Environmental Quality with respect to environmental contamination on the site formerly used by Royal Oak Township as a refuse disposal area. The Authority has conducted soil testing to determine the presence of contamination, performed minor debris clean up, and added soil as necessary to increase the thickness of the protective cap that covers the area. The Authority expensed \$4,563 for the year ended June 30, 2005, for site related costs incurred for environmental analysis and cap improvement.

The Authority, in conjunction with the three other parties, has submitted a Remedial Action Plan to the State of Michigan wherein it requests that the State certify the remediation work performed to date and to approve a continuing maintenance program. The plan provides that the Authority will complete its cap improvement work and obtain certain agreements from property leases regarding use restrictions on the site. The Authority estimates that it has completed substantially all of the Remedial Action Plan items.

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

City of Rochester Hills v. SOCRRRA

The City of Rochester Hills filed a motion in June of 2002 related to the end use of the landfill property. After several hearings, the parties agreed to the following:

1. SOCRRRA shall maintain an escrow account in the amount of \$100,000 that will be held until Rochester Hills and SOCRRRA have agreed on an end use to the landfill property.
2. SOCRRRA will continue to maintain a post-closure liability account. The balance in this account as of June 30, 2005 is \$281,908.

All of the remaining issues in this case have been resolved.

City of Madison Heights v SOCCRA

This case involved Madison Heights' allegations that SOCRRRA owes it an equity payment under a law purporting to govern a member's withdrawal from SOCRRRA. SOCRRRA filed counterclaims for unpaid invoices for environmental liabilities previously tendered to Madison Heights. The parties reached a settlement agreement on March 16, 2005 that resolved all of the outstanding issues in this case. SOCRRRA paid Madison Heights \$556,073 as a net settlement of Madison Heights' equity in SOCRRRA, offset by Madison Heights' environmental liability to SOCRRRA through June 30, 2004. Madison Heights agreed to assume responsibility for 8.75% of SOCRRRA's environmental liabilities from July 1, 2004 forward for all SOCRRRA properties used during the membership of Madison Heights in SOCRRRA. SOCRRRA and Madison Heights also agreed to resolve several property issues following Madison Heights' preparation of the required easements and property descriptions.

Subsequent to the settlement agreement, Madison Heights filed a motion contesting SOCRRRA's interpretation of the terms of the settlement agreement relating to Madison Heights' environmental liabilities. The Oakland County Circuit Court ruled in the favor of SOCRRRA on all three phases of the Madison Heights' motion. Madison Heights has filed a leave to appeal the Circuit Courts decision with the Michigan Court of Appeals.

D. Landfill Closure and Post-Closure Care Costs

Federal, state and local laws and regulations require the Authority to place a final cover on its Rochester Hills landfill site since it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

A liability for landfill closure and post-closure care in the amount of \$1,328,685 is reported at June 30, 2005. These amounts represent the cumulative remaining amount reported to date based on the use of 100 percent of the estimated capacity of the landfill as of June 30, 2005, less amounts expended towards the liability. For the year ended June 30, 2005, \$469,833 was actually expended in closure costs and an additional \$278,646 was recognized as an increase in the liability for post-closure care costs. These amounts are based on what it would cost to perform all

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

closure and post-closure care as of June 30, 2005. Actual cost may be higher because of inflation, changes in technology, or changes in regulations.

In connection with the closure of the landfill, the height/final elevation will be an issue with the Michigan Department of Environmental Quality. Closure experts and the Authority attorney have advised that the MDEQ will, under most circumstances, require a penalty for the height. The amount is probable at \$50,000. This amount is properly included in the landfill liability.

E. Postretirement Benefits Other Than Pensions

The Authority provides, by Board resolution, postretirement health care benefits to employees and their dependents. Currently, there are thirteen retirees who receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2005, \$122,797 is recognized as expense for postretirement health care.

F. Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-7677.

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15 and 25 years of service depending on the employees' age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25% of the three-year final average compensation multiplied by credited years of service. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

Funding Policy

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ending December 31, 2004 is 10.09% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

Notes To Financial Statements

requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.

Annual Pension Cost

For the year ended June 30, 2005, the Authority's annual pension cost of \$53,481 was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0% compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority had an unfunded actuarial accrued liability of \$393,480 as of December 31, 2004, the date of the latest actuarial valuation.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ 1,080	100%	\$-
6/30/04	10,399	100%	-
6/30/05	53,481	100%	-

In addition to the annual pension cost noted above, the Authority is also assessed a prorated share of the required contributions to MERS by the Southeastern Oakland County Water Authority (SOCWA). The prorated amount is due to and based upon administrative services provided to the Authority by SOCWA. The prorated amount charged to the Authority for the year ended June 30, 2005 was \$76,851.

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

DEFINED BENEFIT PENSION PLAN INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$	4,685,211	\$ 4,203,449	\$ (481,762)	111%	\$ 839,412	0%
12/31/02		4,466,528	4,498,801	32,273	99%	777,877	4%
12/31/03		4,418,297	4,631,431	213,134	95%	791,458	27%
12/31/04		4,370,535	4,764,015	393,480	92%	754,116	52%

SUPPLEMENTARY SCHEDULES

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

SCHEDULE OF BUDGET ANALYSIS

	July 1, 2004 to June 30, 2005		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Revenue			
Municipalities solid waste			
Members	\$ 5,140,500	\$ 4,717,514	\$ (422,986)
Others	539,750	2,648	(537,102)
Total municipalities solid waste revenue	5,680,250	4,720,162	(960,088)
Bulky waste			
Members	-	56,236	56,236
Others	-	661,447	661,447
Total bulky waste revenue	-	717,683	717,683
Compost material			
Members	971,430	1,053,113	81,683
Others	39,410	60,016	20,606
Total compost material revenue	1,010,840	1,113,129	102,289
Recyclable material			
Sale of recyclables	1,410,000	1,909,719	499,719
Less: rebates to cities	(436,750)	(429,517)	7,233
Total recyclable material revenue	973,250	1,480,202	506,952
Household waste revenue	88,000	113,572	25,572
Other revenue			
Grants	-	1,320	1,320
Interest income	24,000	40,221	16,221
Insurance proceeds	-	51,124	51,124
Loss on sale of capital assets	-	(149)	(149)
Miscellaneous and rental income	118,156	143,182	25,026
Total other revenue	142,156	235,698	93,542
Total revenue	7,894,496	8,380,446	485,950
Operating expenses			
Madison Heights transfer station	420,493	425,031	(4,538)
Reloading operation - compost	381,405	430,742	(49,337)
Refuse hauling operation	1,896,378	1,653,124	243,254
Battery recycling/special household waste	147,833	141,542	6,291
Troy transfer station operation	2,345,180	2,597,446	(252,266)
Material recovery facility	647,280	688,483	(41,203)
Rochester Hills landfill operation	334,575	789,987	(455,412)
Administrative and general	1,129,750	1,392,296	(262,546)
Total operating expenses	7,302,894	8,118,651	(815,757)
Funds available for transfer	\$ 591,602	\$ 261,795	\$ (329,807)

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS

July 1, 2004 to June 30, 2005			
	Budgeted	Actual	Variances Favorable (Unfavorable)
Madison Heights Transfer Station			
Receiving and storage			
Labor and supervision	\$ 213,703	\$ 170,140	\$ 43,563
Maintenance of equipment	30,000	48,645	(18,645)
Maintenance of cranes	35,000	-	35,000
Contracted services	-	820	(820)
Supplies	-	2,354	(2,354)
Utilities	37,800	84,227	(46,427)
Total Madison Heights receiving/storage	316,503	306,186	10,317
Building			
Supplies and maintenance	21,000	59,301	(38,301)
Total Madison Heights building expense	21,000	59,301	(38,301)
Maintenance of property and grounds			
Labor and supervision	44,990	37,303	7,687
Maintenance of equipment	33,000	22,241	10,759
Environmental testing and maintenanc	5,000	-	5,000
Total Madison Heights maintenance	82,990	59,544	23,446
Total Madison Heights Transfer Station	420,493	425,031	(4,538)
Reloading Operation - Compost			
Madison Heights			
Labor and supervision	-	569	(569)
Maintenance of equipment	-	1,637	(1,637)
Supplies	-	1,999	(1,999)
Hauling leaves	104,000	124,436	(20,436)
Hauling woodchips	-	6,566	(6,566)
Total Madison Heights reloading expense	104,000	135,207	(31,207)

Continued...

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS

	July 1, 2004 to June 30, 2005		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Troy			
Labor and supervision	\$ 18,405	\$ 9,407	\$ 8,998
Maintenance of equipment	4,000	343	3,657
Contractual leaves	255,000	285,785	(30,785)
Total Troy reloading expense	277,405	295,535	(18,130)
Total Reloading Operation - Compost	381,405	430,742	(49,337)
Refuse Hauling Operation			
Madison Heights transfer station			
Contractual municipal solid waste (net of credits)	1,896,378	1,653,124	243,254
Battery Recycling/Special Household Waste Operation			
Labor and supervision	37,833	17,120	20,713
Maintenance of equipment	-	312	(312)
Household waste transfer hauling	102,000	122,486	(20,486)
Contractual-disposal batteries	8,000	1,624	6,376
Total Battery Recycling/Special Household	147,833	141,542	6,291
Troy Transfer Station			
Labor and supervision	95,093	99,216	(4,123)
Maintenance of equipment	21,000	6,705	14,295
Maintenance of building	4,000	3,131	869
Utilities	28,350	32,202	(3,852)
Maintenance of property and grounds	3,000	2,301	699
Supplies	-	1,064	(1,064)
Contractual municipal solid waste (net of credits)	2,193,737	2,167,689	26,048
Contractual bulky waste	-	285,138	(285,138)
Total Troy Transfer Station	2,345,180	2,597,446	(252,266)

Continued...

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS

	July 1, 2004 to June 30, 2005		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Material Recovery Facility			
Labor and supervision	\$ 478,530	\$ 510,704	\$ (32,174)
Utilities	36,750	61,572	(24,822)
Maintenance of equipment	-	58,399	(58,399)
Maintenance of building	95,000	22,400	72,600
Maintenance of property and grounds	23,000	2,489	20,511
Contracted services	-	4,619	(4,619)
Supplies	14,000	28,300	(14,300)
Total Material Recovery Facility	647,280	688,483	(41,203)
Rochester Hills Landfill Operation			
Landfill			
Labor and supervision	5,000	-	5,000
Supplies	-	244	(244)
Maintenance of equipment	2,000	5,109	(3,109)
Maintenance of property and grounds	2,000	16,072	(14,072)
Environmental testing and maintenance	25,000	13,556	11,444
Closure and post-closure care expense	10,000	353,007	(343,007)
Total Rochester Hills landfill expense	44,000	387,988	(343,988)
Compost			
Labor and supervision	153,375	198,214	(44,839)
Maintenance of equipment	30,000	115,431	(85,431)
Maintenance of property and grounds	10,000	7,115	2,885
Utilities	4,200	5,842	(1,642)
Disposal	-	10,463	(10,463)
Contractual services	-	435	(435)
Hauling compost	93,000	64,499	28,501
Total Rochester Hills compost expense	290,575	401,999	(111,424)
Total Rochester Hills Landfill Operation	334,575	789,987	(455,412)

Continued...

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS

	July 1, 2004 to June 30, 2005		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Administrative and General			
Salaries	\$ 238,500	\$ 294,500	\$ (56,000)
Administrative and office	26,400	36,002	(9,602)
Office space rental	45,000	45,000	-
Personnel improvement	1,000	1,881	(881)
Travel, conference	2,000	4,974	(2,974)
Recycling education	4,650	16,171	(11,521)
Consulting	62,790	46,196	16,594
Legal	40,000	96,371	(56,371)
Audit	10,000	9,100	900
Other accounting services	2,000	800	1,200
Social security	67,100	80,171	(13,071)
Retirement plan	75,400	131,254	(55,854)
Insurance			
General	112,000	106,584	5,416
Group	378,000	430,716	(52,716)
Worker's Compensation	24,400	22,212	2,188
Life	1,260	4,506	(3,246)
Service - Madison Heights	5,250	5,150	100
Property taxes	31,600	29,689	1,911
Miscellaneous	2,400	31,019	(28,619)
Total Administrative and General	1,129,750	1,392,296	(262,546)
Total expenses	\$ 7,302,894	\$ 8,118,651	\$ (815,757)

SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY

SCHEDULES OF OPERATIONS ANALYSIS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004	
	Total Tons	Budget	Actual Amount	Total Tons	Actual Amount
Operating Revenues					
Municipal solid waste					
Members	136,696	\$ 5,140,500	\$ 4,717,514	144,462	\$ 4,841,632
Others	43	539,750	2,648	38	2,652
Bulky waste					
Members	1,577	-	56,236	1,667	55,921
Others	10,279	-	661,447	9,233	573,245
Compost material					
Members	32,091	971,430	1,053,113	35,604	990,103
Others	1,001	39,410	60,016	864	48,471
Recyclable material	17,194			17,012	
Clear glass		121,500	18,055		19,439
Cardboard		27,000	102,395		64,085
Newspapers		1,066,500	1,176,244		1,009,461
Scrap metal		-	226,177		131,898
Plastics		54,000	258,005		210,267
Batteries		-	842		302
Tin cans		81,000	90,214		38,819
Compost		60,000	37,787		62,147
Less rebates to cities		(436,750)	(429,517)		(319,460)
Household waste		88,000	113,572		124,475
Other income					
Rental (net of utilities and maintenance)		93,156	82,322		70,059
Insurance reimbursement		-	51,124		1,840
Miscellaneous		25,000	60,860		27,992
Total operating revenue		7,870,496	8,339,054		7,953,348
Operating Expenses					
Madison Heights transfer station		420,493	425,031		418,254
Reloading operation - compos		381,405	430,742		430,463
Refuse hauling operation		1,896,378	1,653,124		1,765,183
Battery recycling/special household wast		147,833	141,542		170,200
Troy transfer station operator		2,345,180	2,597,446		2,502,135
Material recovery facility		647,280	688,483		659,239
Rochester Hills landfill operation		334,575	789,987		966,105
Administrative and genera		1,129,750	1,392,296		1,076,889
Total operating expenses		7,302,894	8,118,651		7,988,468
Operating income (loss) before depreciation		567,602	220,403		(35,120)
Nonoperating revenue (expense)					
Land sale rebate		-	-		(1,000,000)
Madison Heights settlemen		-	(556,073)		-
Grants		-	1,320		-
Interest on investment		24,000	40,221		29,251
Gain (loss) on sale or disposition o capital assets		-	(149)		(13,350)
Total nonoperating revenue (expense)		24,000	(514,681)		(984,099)
Income before depreciation		591,602	(294,278)		(1,019,219)
Depreciation of capital assets		-	380,256		99,920
Net income (loss)		\$ 591,602	\$ (674,534)		\$ (1,119,139)

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF CUSTOMER ACCOUNTS RECEIVABLE
AND ANALYSIS OF CHARGES**

	Accounts Receivable Balance July 1 2004	Municipal Solid Waste		Bulky Waste		Compost		Recyclables		Late Charge	Household Waste	Total Charges and Credits	Beginning Accounts Receivable Plus Billings Less Credits	Payments Applied to Charges	Accounts Receivable Balance June 30, 2005
		Number of Tons	Billings	Number of Tons	Billings	Number of Tons	Billings	Number of Tons	Total Credits						
Municipalities															
Berkley	\$ 28,622	7,465	\$ 257,208	7	\$ 260	716	\$ 19,650	878	\$ (21,996)	\$ -	\$ 4,428	\$ 259,550	\$ 288,172	\$ 260,758	\$ 27,413
Beverly Hills	11,065	4,417	151,640	31	1,055	1,712	56,864	779	(19,464)	-	9,736	199,832	210,897	200,576	10,322
Birmingham	47,466	12,254	423,755	129	4,434	3,430	106,102	1,894	(47,337)	-	12,904	499,857	547,323	501,781	45,542
Clawson	25,862	6,135	211,790	495	17,087	2,137	65,492	946	(23,657)	-	6,044	276,756	302,618	288,291	14,327
Ferndale	25,782	14,158	487,967	108	3,732	2,819	83,721	1,173	(30,616)	-	6,180	550,983	576,765	525,018	51,747
Hazel Park	36,763	9,074	313,207	20	687	1,408	39,110	495	(12,312)	-	1,832	342,522	379,285	346,215	33,070
Huntington Woods	12,361	2,663	92,277	97	3,363	1,083	33,661	676	(18,151)	-	3,808	114,958	127,319	115,363	11,956
Lathrup Village	8,761	2,103	72,830	121	4,177	400	11,700	209	(5,185)	-	1,748	85,271	94,032	85,625	8,407
Oak Park	48,093	11,438	394,671	1	35	3,288	93,048	931	(24,085)	-	3,520	467,188	515,281	451,652	63,629
Pleasant Ridge	2,966	1,302	45,153	294	10,150	667	20,454	229	(5,490)	-	1,928	72,195	75,162	72,111	3,051
Royal Oak	117,388	30,185	1,041,780	67	2,302	6,631	283,332	4,069	(101,438)	-	27,656	1,253,632	1,371,020	1,261,327	109,693
Troy	154,224	35,502	1,225,236	207	8,955	7,803	239,980	4,795	(119,784)	-	33,788	1,388,175	1,542,398	1,391,926	150,472
	519,353	136,696	4,717,514	1,577	56,236	32,091	1,053,113	17,074	(429,515)	-	113,572	5,510,920	6,030,273	5,500,644	529,630
Other customers	7,782	43	2,648	10,279	661,447	1,001	60,015	120	-	-	-	724,110	731,892	720,920	10,972
Totals	<u>\$ 527,135</u>	<u>136,739</u>	<u>\$4,720,162</u>	<u>11,855</u>	<u>\$717,683</u>	<u>33,092</u>	<u>\$ 1,113,128</u>	<u>17,194</u>	<u>\$ (429,515)</u>	<u>\$ -</u>	<u>\$ 113,572</u>	<u>\$ 6,235,030</u>	<u>\$ 6,762,165</u>	<u>\$ 6,221,565</u>	<u>\$ 540,601</u>

**SOUTHEASTERN OAKLAND COUNTY
RESOURCE RECOVERY AUTHORITY**

SCHEDULE OF WORKING CAPITAL ANALYSIS

	June 30,	
	2005	2004
Total current unrestricted assets	\$ 1,522,003	\$ 1,542,995
Less: Current unrestricted liabilities	<u>1,248,125</u>	<u>1,428,893</u>
Total working capital	273,878	114,102
Annual operating expense:	<u>8,118,651</u>	<u>7,988,468</u>
Percentage of working capital to annual operating expenses	<u><u>3.37%</u></u>	<u><u>1.43%</u></u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

September 22, 2005

To the Honorable Members of the Board
Southeastern Oakland County
Resource Recovery Authority
Oakland County, Michigan

We have audited the basic financial statements of the of the *Southeastern Oakland County Resource Recovery Authority* as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Southeastern Oakland County Resource Recovery Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Southeastern Oakland County Resource Recovery Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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September 22, 2005

To the Members of the Board
Southeastern Oakland County
Resource Recovery Authority
Royal Oak, Michigan

In planning and performing our audit of the basic financial statements of the ***Southeastern Oakland County Resource Recovery Authority*** for the year ended June 30, 2005, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 22, 2005, on the basic financial statements of the ***Southeastern Oakland County Resource Recovery Authority***.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Authority in implementing the recommendations.

We would like to thank the staff and management of the ***Southeastern Oakland County Resource Recovery Authority*** for their assistance and cooperation in completing the audit.

A.) CAPITAL ASSETS SUBSIDIARY LEDGER

During our audit we noted that the subsidiary ledger for capital assets did not trace directly to the general ledger control accounts by the categories as described in the notes to the financial statements. We did however note that the total of capital assets in the subsidiary ledger tied in total to the control accounts in the general ledger.

Recommendation

We would recommend that the Authority consider grouping capital assets by category in which it desires to display in the notes to the financial statements. In addition we would recommend that the Authority consider establishing general ledger control accounts for both cost and accumulated depreciation for these categories. We believe that this will aide the Authority in reconciling capital assets at year end and to simplify and expose any areas in which the subsidiary ledger does not trace to the general ledger.

B.) POSTEMPLOYMENT BENEFITS PLANS OTHER THAN PENSIONS

In April 2004 the Governmental Accounting Standards Board issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*.

The standard will take effect in the 2009-2010 fiscal year and requires the Authority to obtain an actuarial valuation of its postemployment benefits other than pension plans, establish a separate trust or equivalent for these benefits and begin funding this long-term obligation based on the actuarially determined required contribution amount.

Recommendation

We would recommend that the Authority consider the future financial impact on the Authority by obtaining an actuarial study or have management prepare an estimation of what the required contributions will be as compared to the current "pay as you go" method that the Authority currently employs.

There are many things that the Authority can do to mitigate the financial impact with proper planning and an early action plan. This includes beginning to pre-fund this liability which will ultimately reduce the actuarially required contributions at the time of implementation. In addition, the Authority may consider eliminating or offering an alternative benefit such as a defined contribution plan in lieu of a defined benefit plan for postemployment benefits other than pensions to new employees.